voices for children IN NEBRASKA
Telling the whole story.

7521 Main Street, Suite 103
Ralston, Nebraska 68127

(402) 597-3100 P
(402) 597-2705 F

http://voicesforchildren.com

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To: Revenue Committee

From: Juliet Summers, Policy Coordinator

RE: Opposition to LB 357, to change income tax rates and transfer funds from the Cash Reserve Fund

Voices for Children is opposed to LB 357 because we don't believe that it is a meaningful tax cut for most Nebraska families, but will have a significant impact on the state budget and outcomes for important programs for children and families.

In 2014, about 80% of Nebraskans had incomes of less than $94,000. According to an analysis by the Institute on Taxation and Economic Policy (ITEP), the monthly amount that these 80% of Nebraska families would receive under the proposed tax cut ranges from about $1.83 per month for the lowest-earning taxpayers to $12.75 per month for middle-income earners. Meanwhile, nearly half of the tax cut would go to those in the top 5 percent (incomes greater than $166,000), and more than one-fourth would go to the top 1 percent of earners, those with incomes greater than $386,000.

Attached to our testimony is a chart illustrating the added purchasing power this proposal would create for taxpayers when it comes to food. As you can see, the majority of Nebraska families won't receive significant relief.

In addition, income tax cuts aren't the most meaningful form of tax relief for lower and middle income families. An analysis by ITEP released last month showed that Nebraska families in lower and middle income ranges pay a much higher percentage of their income in sales, excise, and property taxes than they do in income taxes. For instance, a Nebraska family making $36-$63K annually paid 2.5% of their income toward income taxes, but paid 3.3% toward property taxes and 4.7% in sales and excise taxes.[i] A more impactful way to provide tax relief to lower and middle income families would be to increase the state Earned Income Tax Credit.

Finally, Voices for Children is concerned about what these cuts mean for the state budget overall and for our capacity to make state investments in children by funding things like education, child abuse and maltreatment prevention, and health care. Reducing state revenues by over $419 million is almost certain to lead to cuts to programs serving children and families. Utilizing the Cash Reserve to cover this loss in the next two years is a stopgap measure that would drain our rainy day fund to well below the recommended minimum. We fear that this bill will result in a self-created crisis like Kansas is currently experiencing, where significant changes to the tax structure have resulted in a $338 million deficit, leaving inadequate funding for educational institutions and other state services.

Conversely, if we do have additional state revenue, we could make smart investments in children for a fraction of the cost of the proposed tax cuts. These will pay off in the future with a healthy, educated tax base and workforce.

Nearly 1 in 5 Nebraska kids currently lives in poverty. We can't afford to trade their future for a tax cut that won't even pay for a meal for most families.

We urge the committee not to advance this bill. Thank you.

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[i] http://itep.org/whopays/states/nebraska.pdf